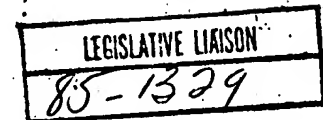


# Congress of the United States

House of Representatives

COMMITTEE ON POST OFFICE AND CIVIL SERVICE



OLL FILE

Recpt #

OHc

Washington, D.C., April 26, 1985

Mr. Magee

Referred to: \_\_\_\_\_

Supplemental Retirement April 25

Testimony given by you before the committee appears in the attached pages. Please furnish any information which was requested and return, AS SOON AS POSSIBLE, for the use of the members of the committee.

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NAME: HPO115000

PAGE 31

676 Mr. FORD. Thank you very much. Mr. Magee.  
677

678 STATEMENT OF ROBERT W. MAGEE  
679

680 Mr. MAGEE. Mr. Chairman, my name is Robert Magee. I am  
681 the Director of Personnel at the Central Intelligence  
682 Agency. I want to thank you for the opportunity to appear  
683 before this committee, to discuss the retirement systems at  
684 the Central Intelligence Agency. It is an issue which is  
685 vital to the continued health of the nation's professional  
686 intelligence service.

687 The United States is a world power. Developments anywhere  
688 in the world, and indeed now in outer space, can affect the  
689 national security of the United States. It is the mission  
690 of the Central Intelligence Agency to understand these  
691 developments, and provide our nation's leaders with the  
692 advance knowledge so critical to successful foreign policy.

693 The intelligence responsibility is continually expanding.  
694 In its early days Central Intelligence dealt primarily with  
695 the threat to the United States from our principal  
696 antagonists in the world. While this threat has remained  
697 our principal concern, new issues constantly arise which  
698 demand intelligence attention, technology transfer, economic  
699 and financial stability of foreign governments, world  
700 petroleum production, narcotics, terrorism, the explosion of

NAME: HPO115000

PAGE 32

701 developments in the technical and scientific field are just  
702 some of the issues which today require daily intelligence  
703 vigilance.

704 The United States is indeed a world power, and its  
705 citizens expect the nation to have a world-class  
706 professional intelligence service. I am pleased, Mr.  
707 Chairman, to say to you today that this nation does have a  
708 world-class intelligence service, and that the leaders of  
709 this nation are the best informed individuals in the world.

710 Recognizing that CIA's job is different from the rest of  
711 the government, Congress historically has supported agency  
712 efforts to recruit and retain career oriented employees  
713 dedicated to the mission of the agency, and responsive to the  
714 demands that security must place on their professional and  
715 personal lives. Such a career service now exists.  
716 Attrition rates are among the lowest in the government and  
717 attest to a very healthy career organization. It exists  
718 because successive Congresses and administrations were  
719 sensitive to the needs of the people who spend their  
720 professional lives in intelligence.

721 In recognition of the unique mission of Central  
722 Intelligence, Congress has provided the Director with  
723 special authorities with respect to personnel. These  
724 authorities have no counterpart in the Federal Government.  
725 Consequently, CIA employees are statutorily excluded from

NAME: HPO115000

PAGE 33

726 tenure and from the protection and benefits derived by  
727 status under civ. laws, rules and regulations. This is as  
728 it must be, since the Director must have full and final  
729 authority to say when and where an employee will serve, at  
730 what duties and for how long.

731 To understand the role played by retirement in the CIA  
732 personnel system, it is first necessary to have an  
733 understanding of the process which recruits and retains a CIA  
734 employee, a process which in some ways is similar to other  
735 organizations but which in the aggregate is unique in the  
736 United States Government. We have the most rigorous pre-  
737 employment screen process in the United States. Nowhere  
738 else is each applicant subject to such scrutiny.

739 A typical applicant first takes an eight-hour agency  
740 unique exam developed by the Office of Strategic Service  
741 during World War II, and modified since then by the best  
742 minds in the fields of education and psychology. This test  
743 provides insights into an applicant's intellectual  
744 capability, temperament, work attitudes, vocational  
745 interests, writing skills, psychological profile. Those who  
746 do well on the test, who have demonstrated high achievement  
747 either in their academic or professional careers, and who  
748 have several favorable personal interviews, are placed into  
749 our medical and security clearance procedure.

750 Employment by the Central Intelligence Agency carries with

NAME: HPO115000

PAGE 34

751 it extraordinary health risks. These risks are inherent  
752 both in the geographic and sociopolitical environment in  
753 which employees are liable for assignment. The stresses  
754 involved in highly classified work and overseas environment  
755 requires us to have an extraordinarily detailed clinical and  
756 psychiatric screening for all applicants. We require not  
757 only the applicants themselves pass this medical exam, but  
758 for those in the overseas career track, dependents must be  
759 similarly cleared.

760 Our security and suitability screening is extremely  
761 detailed. Every employee from the most senior to the most  
762 junior is investigated by our own security staff in a  
763 process that covers the last 15 years of an applicant's  
764 life. Again, dependent factors can be disqualifying. When  
765 all of the data are accumulated, we have a very thorough  
766 understanding of the applicant's entire life style. These  
767 data are validated during a polygraph interview given to all  
768 applicants.

769 At the end of the three-year trial period, the medical  
770 security process I just described is repeated, with the  
771 added ingredient of work performance. Did the applicant in  
772 fact measure up to our estimate.

773 It is gratifying to note, Mr. Chairman, that 99 percent of  
774 our employees successfully complete this trial period.

775 It is rather not surprising that we must consider a large

NAME: HPO115000

PAGE 35

776 number of applicants to find the precious few who meet these  
777 demanding standards. Despite enormous difficulties, we have  
778 attracted analysts, attorneys, doctors, case officers,  
779 engineers, scientists and physicists of the highest caliber.  
780 Meeting our recruitment requirements, however, remains one  
781 of our principal priorities. It is a never-ending struggle  
782 which can only get more difficult as we continue to compete  
783 in the marketplace with U.S. industry.

NAME: HPO115000

PAGE 36

784 RPTS BOYUM

785 DCMN SPRADLING

786 [10:15 a.m.]








787

788       Entering on duty, the CIA employee becomes a part of a  
789 world which is generally isolated, nomadic, idealistic,  
790 secretive, and increasingly dangerous. In addition to those  
791 personal constraints, common to the few in government who  
792 hold clearance at the CIA level, our employees must endure  
793 even more severe conditions. Every five years they are  
794 subject to a full security investigation and he has no job  
795 tenure, they may not travel abroad, publish articles, marry  
796 a non-U.S. citizen, attend international conferences either  
797 without advance Agency approval. They can receive no public  
798 recognition for their professional achievements but on the  
799 contrary must suffer in silence innumerable calumnies.

800       Dominating all other considerations, however, is the  
801 single heaviest burden of all, cover. Cover, the term for  
802 concealing the fact that we are in fact employed by Central  
803 Intelligence. Nearly 50 percent of all employees at CIA are  
804 under cover. Daily events other take for granted have for  
805 us potential cover ramifications. We have to worry about  
806 car pooling, telephone messages, cover salaries, credit  
807 investigations, court appearances, neighborhood gossip, the  
808 list is endless.

NAME: HPO115000

PAGE 37

809 Covered employees given medals for meritorious performance  
810 may not retain their award. Overseas, many of our employees  
811 must carry two jobs, the cover job and their Agency  
812 assignment, thereby making them subject to two bosses, both  
813 of whom reasonably look for full performance.   
814 Stress is inevitable in such a dual life.  Living cover  
815 pertains also to ones self-image and the need<sup>e</sup> for social  
816 inclusion and recognition and becomes more conflictual with  
817 the family's growinng need for social status, recognition  
818 and identity. The spouse must always be on guard, even in  
819 the most casual of conversations with friends and neighbors.  
820 The employee's true profession must be concealed from the  
821 children until they are mature enough to handle the  
822 knowledge responsibly.   
823  Thus, the stress of dual life extends to every member of  
824 the family.  Cover impacts on those employees who themselves  
825 may not be undercover. Social interchange outside the  
826 workplace must be handled with discretion. Even if not  
827 under cover in Washington, employees who travel abroad must  
828 develop a cover legend. The Agency must avoid large morale  
829 building organizational events popular with similar  
830 institutions out of a fear of jeopardizing employee cover.  
831  Most will agree that in these tense times our nation's first  
832 line of defense is in intelligence.  
833  Recognizing this in the past several years the government



NAME: HPO115000

PAGE 38

834 has improved immeasurably its intelligence capabilities. It  
835 would be extremely unwise to threaten this achievement by  
836 severely reducing our ability to recruit and retain the  
837 caliber of individuals we historically attracted.


838 The Director of Central Intelligence must have the  
839 authority to move the right people into the right place at  
840 the right time. This requires a corps of personnel who are  
841 prepared to go anywhere in the world as the national  
842 interest requires. Ultimately it also means we must move  
843 people into retirement so that we can prepare the next  
844 generation of intelligence officials.


845 The mandatory retirement provision in the Central  
846 Intelligence Agency Retirement and Disability System is an  
847 important management tool which has worked well and which  
848 should be retained in any new legislation. We find, for  
849 example, that after age 50, nearly 50 percent of our  
850 employees are not eligible for full service medical  
851 clearance. We we to include those who could not travel due  
852 to family medical constraints, these figures would be more  
853 ~~startling~~. stark,


854 In addition to the purely clinical health hazards involved  
855 in worldwide service, Agency personal are confronted with  
856 psychological stressed which over the long haul extract<sup>s</sup> a  
857 health toll just as great. In addition to the subtle  
858 factors of cultural translocation and family disruption,


NAME: HPO115000

PAGE 39

859 there are not infrequently high/traumatic events. Scores of  
860 employees have been in foreign prisons, sometimes for years  
861 or otherwise harrassed when their agency affiliation became  
862 known. 

863  Employees and their families confront the more diffuse  
864 crisis associated with civil disorder, terrorism and other  
865 local circumstances which are not even remotely comparable  
866 to the life of the typical American suburban setting in  
867 which our employees would otherwise have remained.

868 One must also appreciate what the current worldwide  
869 epidemic of terrorism means in trying to manage an  
870 organization whose employees must daily confront this  
871 reality and who because of their agency affiliation are  
872 particularly vulnerable. 

873  In the last few years, there have been thousands of  
874 terrorist incidents, nearly a third of which have been  
875 targeted against Americans. Regrettably the end to this  
876 scourge is not in sight. Indeed it is one of this Agency's  
877 most pressing responsibilities to help negate this menace.  
878 To do it, we need a young and vigorous work force medically  
879 and psychologically able to handle the stress and  
880 sufficiently courageous to accept the obvious dangers  
881 involved.

882 Several security considerations unique to our  
883 ~~porofessional~~ buttress further our need for a flowthrough

NAME: HPO115000

PAGE 40

884 personnel system, allowing for early retirement.

885 Prolonged service in operational environments increases  
886 the risk of identification of our operatives to hostile  
887 intelligence, internal security or terrorist organizations.

888 ← Anonymity is a critical ingredient for a successful  
889 intelligence officer.

890 Personal security inevitably erodes with time and new  
891 operatives must constantly be put into the system to  
892 maintain balance in the personnel structure as older, more  
893 exposed individuals must be allowed to retire. 4 Ironically  
894 some of the retirement proposals currently being discussed  
895 would cause our older employees who should leave, to stay,  
896 and our younger employees who should stay, to leave.

897 Our officer corps is recruited generally from the recent  
898 college graduate pool, roughly the 20-25 year old age group.

899 While it is to the government's disadvantage to keep these  
900 people for 40 years for the reason previously stated, it is  
901 equally disadvantaged <sup>ous</sup> from a security standpoint to  
902 encourage them to leave our service in less than the 20 to  
903 30 years without adequate retirement.

904 Agency employees have access to highly classified  
905 information from the beginning of their employment. We have  
906 long recognized the inherent security risks of a short-term  
907 transient work force. Given the extraordinary sensitivity  
908 of our mission, we must have a career track which retains

NAME: HPO115000

PAGE 41

909 staff for a full career but promises them the early  
910 opportunity to retire with financial security.

911 Therefore, continuation of eligibility for retirement with  
912 full benefits at age 50 is essential.

913 Employment at CIA means work overseas whether qualified  
914 for our Central Intelligence Agency Retirement and  
915 Disability<sup>System</sup>, which I refer to as CIARDS, or not. Only 36  
916 percent of CIA employees currently serving overseas have  
917 qualified for CIARDS. The remaining 64 percent are covered  
918 under the Civil Service Retirement System.

919 Unlike members of the Foreign Service, all of whom are  
920 eligible for the early retirement benefits from the moment  
921 they begin their career, CIA employees must earn their way  
922 into CIARDS by serving five years overseas. Given our  
923 policy of rotating people to and from the field, it takes  
924 time for employees to earn those five years. Obviously some  
925 never do, which explained<sup>S</sup> why<sup>IN</sup> of this overseas-oriented  
926 <sup>Organization</sup> staff only a very small percentage is in CIARDS.

927 Forty-two percent of our Civil Service retirees population  
928 in the past five years has overseas duty with the Agency.  
929 There are thousands of CIA employees who serve abroad but  
930 are not qualified for CIARDS. Nearly 50 percent of the  
931 Agency bear the lifelong burden to cover. I want to stress  
932 that cover is carried into retirement ←

933 A majority of those under cover are not qualified for

NAME: HPO115000

PAGE 42

934 CIARDS.

935 Overseas service is becoming more dangerous for all  
936 Americans, but especially for employees of the CIA. The  
937 mortality figures for our people are grim. Since the early  
938 1950s, of the nearly 200 Agency employees who have died  
939 serving abroad, less than 30 percent were in CIARDS. We  
940 have 50 Gold Stars in our entry foyer honoring our  
941 colleagues who died from hostile action or ~~whose~~ *while*  
942 *participating* in highly dangerous Agency activities, only  
943 ten were in CIARDS.

944 Of the two most senior CIA officers slain in hostile  
945 action overseas, one was the director of a headquarters  
946 analytical office.

947 <sup>C</sup>~~A~~IA is a single, indivisible agency with a single culture  
948 and ethic. At present there is an esprit de corps among all  
949 our employees, an agency-wide team approach, a general state  
950 of mind that timeliness is critical, accuracy is imperative,  
951 absorption with the task at hand must take priority over  
952 personal distractions. Advancing years *office brings* lessening of work  
953 vigor and enthusiasm. The larger the proportion of older  
954 employees, the greater the debilitating effect on the tenor  
955 at the Agency.

956 A healthy career organization now exists. Fundamental to  
957 this health has been the successful policy which recognizes  
958 burnout as a reality, and allows our employees to retire

NAME: HPO115000

PAGE 43

959 early and with dignity.

960 The special overseas mission of CIA justifies continuation  
961 of eligibility for retirement with full benefits at age 50  
962 for the employees in CIARDS.

963 This is as it should be. However, the special  
964 requirements and mission of CIA involve all of our employees  
965 in a number of ways unique in the government. This  
966 legislatively mandated status for CIA impacts on all of our  
967 people and is the basis for a personnel system different  
968 from any other in government.

969 Any changes in the current retirement system will have to  
970 be very carefully considered to ensure that potential  
971 repercussions are fully understood. We are confident that  
972 working in close consultation with our oversight committees  
973 we can achieve our mutual goals.

974 Thank you for your attention, Mr. Chairman.

975 Mr. FORD. Thank you.

NAME: HPO115000

PAGE 44

976 Mr. FORD. Mr. Cohen, am I able to assume that your  
977 statement has been cleared by the Administration?

978 Mr. COHEN. Yes, sir, it has.

979 Mr. FORD. Then first on the record, I am surprised at the  
980 bottom of page 2 you suggest that any supplemental plan must  
981 provide for both Foreign Service and Civil Service employee,  
982 additional payments to bring the period between retirement  
983 and commencement of social security benefits at age 62.

984 I raised that early today, you might not yet have been  
985 here, because nobody has ever mentioned it advocating the  
986 changes in the system. Do you have anything in mind with  
987 respect to what we should use as a pattern to do that?

988 Mr. COHEN. No, sir, not right now. We would like to see  
989 what comes out of the Civil Service changes and then we  
990 would adapt ours to be as compatible as possible with it for  
991 the Foreign Service or request something different if we  
992 found that compatibility was not possible.

993 Mr. FORD. I would ask both of you gentlemen, but in light  
994 of what you both said here this morning, what would be the  
995 expected impact if we were to go forward with the so-called  
996 budget compromise that is coming at us from the Senate side  
997 working out with the White House which has the 5 percent per  
998 year reduction in the annuity phasing in up to the age 65.

999 What would a 5 percent per year reduction under the age of  
1000 65 do to your personnel? What would be the effect roughly

NAME: HPO115000

PAGE 45

1001 in generalizing it on the quality and makup of your  
1002 personnel picture?

1003 Mr. MAGEE. This is the 5 percent reduction for retirement  
1004 under age 65, Mr. Chairman?

1005 Mr. FORD. Per year.

1006 Mr. MAGEE. Two things would happen. First of all, we  
1007 would lose the 40 year old group. We would have a serious  
1008 loss I think in the 35 to 40 year old group, and we would  
1009 have, secondly, those people who really should retire, in  
1010 their interests as well as ours, simply could not afford to  
1011 retire at half annuity and would stay.

1012 In my statement I alluded to that when I said those who  
1013 in effect should stay, would leave, those who should leave,  
1014 will stay.

1015 Mr. FORD. I gather that from your previous remarks that  
1016 having people leave in their 40s is not generally looked at  
1017 as a wise thing in your agency?

1018 Mr. MAGEE. At forty?

1019 Mr. FORD. Mainly because of the cost to have people leave  
1020 unless they are indeed fixed so that they have an income to  
1021 take care of them the rest of their life. You would rather  
1022 not see them floating around out there.

1023 Mr. MAGEE. I didn't mean to imply that. As I was saying  
1024 it the suggestion occurred to me they would not have enough  
1025 money <sup>and</sup> was a security risk--no, sir, that is not the intent.



NAME: HPO115000

PAGE 46

1026 We like to keep our people for a full career. If you have  
1027 a highly transient force you have--

1028 Mr. FORD. I have always been under the impression that  
1029 you people fashioned golden parachutes whenever you had to.

1030 Mr. MAGEE. Sorry, sir?

1031 Mr. FORD. I had always been under the impression that you  
1032 people fashioned appropriate golden parachutes whenever it  
1033 was necessary.

1034 Mr. MAGEE. I wish--sorry, sir, regrettably that impressio  
1035 is not correct I am afraid?

1036 Mr. FORD. Most of the mystery writers always describe it  
1037 that way.

1038 Mr. MAGEE. Regrettably that is not accurate.

1039 Mr. FORD. Like every other profession it is never as well  
1040 paid or as much fun as the writers describe it.

1041 Now, the GAO has told us that the average Foreign Service  
1042 Officer retires at 55 with 27 years and you corrected that  
1043 by saying if you take into account the entire work force,  
1044 not just those classified as "'Foreign Service Officers'",  
1045 the service time extends itself to 32-and-a-third years. I  
1046 assume that that is primarily office personnel, not  
1047 administrative?

1048 Mr. COHEN. The people who tend to stay longer in their  
1049 career are what we call administrative and clerical support  
1050 personnel, the secretaries, communicators, and engineers and

NAME: HPO115000

PAGE 47

1051 so on, the nurses. These are the people we would like to  
1052 keep in whereas on our officer side we like to have very  
1053 severe competition for promotion and to be able to  
1054 mandatorily retire those who are less competitive and will  
1055 not make the senior ranks and give them an opportunity to  
1056 get out any time after age 50.

1057 Mr. FORD. And the average CIA officer retires at 52.8  
1058 years with 29.3 years of service, according to the GAO.

1059 Mr. MAGEE. Yes, sir, those are our figures.

1060 Under the CIA Retirement and Disability System, yes.

1061 Mr. FORD. What kind of trend, if any, do you detect in  
1062 the relation of those two figures in the last four or five  
1063 years?

1064 Mr. MAGEE. It has been fairly constant. I think those  
1065 are--the gentleman said I think they were fiscal year 1983.

1066 Mr. FORD. Right.

1067 Mr. MAGEE. The 1984 figure is right around <sup>53,</sup> ~~three~~. Our  
1068 average retirement age has remained very constant since  
1069 19<sup>8</sup>64.

1070 Mr. FORD. Mr. Cohen?

1071 Mr. COHEN. Ours is more or less remaining the same. Our  
1072 senior officers have not been retiring voluntarily in the  
1073 last few years because when the pay cap was lifted, they had  
1074 a financial incentive to stay in in order to get a higher  
1075 high-3 average. But in the last two years we have really

NAME: HPO115000

PAGE 48

1076 started to enforce our mandatory retirement system, our  
1077 upper-out system.

1078 As I mentioned in my remarks, we asked 35 senior officers  
1079 to leave last year and this number will be increasing each  
1080 year from now on.

1081 Mr. FORD. I have to tell you, Mr. Cohen, that every place  
1082 I have been in the last three years outside the country, one  
1083 of the first questions I get from your Foreign Service  
1084 Officers is what is going to happen to our pension? Should  
1085 I leave the Service now before it is messed up?

1086 I cannot tell you how many people I have run into who  
1087 asked the question should I get out before the rules are  
1088 changed? I have had Ambassadors tell me it is a problem for  
1089 them because their professionals and their mission are  
1090 concerned.

1091 Have you seen any evidence of people jumping out ahead of  
1092 Stockman and me?

1093 Mr. COHEN. They are not jumping yet but we have the same  
1094 reaction you do, every time we go abroad to discuss issues,  
1095 this is the one issue that everyone wants to discuss and we  
1096 constantly get telegrams and phone calls, please let us know  
1097 in advance when the 5 percent penalty for every year under  
1098 age 60 will go into effect so we can retire right away.

1099 Mr. FORD. I have had the impression because it comes up  
1100 so frequently with me, that the four years of our dogfight

NAME: HPO115000

PAGE 49

1101 here with the constant repetition of the threat and  
1102 withdrawal of the threat, has eroded the confidence of  
1103 people out there who are reaching the age where they are  
1104 starting to think ten or fifteen years down the road about  
1105 what will happen to them and their families, and our  
1106 commitment to them.

1107 I cannot believe that that promotes the best performance  
1108 out of those people or provokes the greatest sense of  
1109 loyalty.

1110 Mr. COHEN. They are clearly worried.

1111 Mr. FORD. I hope we can get this somehow behind us, at  
1112 least get a moratorium on talking about the pension for a  
1113 few years.

1114 Mr. COHEN. I would agree.

1115 Mr. FORD. I don't think there has ever been any period of  
1116 time since pensions came into existence where we have had  
1117 this long, strung out discussion going on with all the  
1118 uncertainty engendered with the bad information and the  
1119 spread of the bad information far outweighs the publicity  
1120 given the good information, of course, and there is just  
1121 really no way to estimate what it does to people.

1122 I find it difficult when people say on the one hand the  
1123 main reason people work for the Federal Government is  
1124 because of the overgenerous pension system, that they then  
1125 by the same token don't understand how important that

1126 pension system may in fact be, if not as important as they  
1127 say, but at least significantly important as the morale  
1128 factor in getting efficiency out of the Federal work force.

1129 Let me ask you both kind of a general question about  
1130 structuring the systems for your special groups. There are  
1131 really two ways that you put together a retirement plan. In  
1132 the old fashioned way, you set aside money in some kind of  
1133 investments, and depending on the performance of those  
1134 investments you have resources at the time that you get  
1135 ready to retire.

1136 DCMN GLASSNAP

1137

1138 Second is to set up a system where you guarantee a fixed  
1139 benefit, defined benefit at the time of retirement under a  
1140 formula that would let an employer or you know at any given  
1141 time what its performance will be at any time in the future.

1142 Under the first approach, the benefit isn't known until you  
1143 reach mandatory retirement or retirement age and see what  
1144 has happened. Under the other, you have the continuing  
1145 security of or reasonable assurance, at least in the past,  
1146 that there is a certainty of performance of the system.

1147 Which of those two approaches is most appropriate for your  
1148 kind of special populations, or would a combination of the  
1149 two be an improvement on the present structure?

1150 Mr. COHEN. Well, speaking for the Foreign Service, sir, I  
1151 would say that the defined benefit, the predictable benefit,  
1152 is extremely important for people who are coming in knowing  
1153 that their chances of not going beyond age 50 in the  
1154 Service, for whatever reason, burnout, mandatory retirement,  
1155 inability to serve overseas, noncompetitiveness, it seems to  
1156 me this predictable benefit is something that is important  
1157 to them to go in and say, "Well, if I have to get out at  
1158 age 50, 51 or 52, I know what my cushion will be. I use  
1159 that as a basis for starting an alternate career."

1160 The undefined system would make it harder for us to

1161 attract the people we want.

1162 Mr. MAGEE. Yes, sir, the economic <sup>im</sup>ponderables of what is  
1163 ahead of us, in the defined contribution system, ~~it~~ is scary  
1164 to the employees. They understand it.

1165 Mr. FORD. Maybe we ought to make it optional and, say,  
1166 wait to see what the people do, so you find out what you  
1167 know about the future of our economy.

1168 Mr. MAGEE. When you see them all going, something is  
1169 wrong.

1170 To answer an earlier question, we have experienced an  
1171 <sup>increase</sup>uptake in retirements beyond our projections. I have looked  
1172 into it, and <sup>E</sup>even though all the <sup>the various proposals</sup>things that are being discussed  
1173 <sup>all contain grandfather clauses, there is skepticism.</sup>~~talked about~~, I find people who are eligible to retire will  
1174 ~~be exempt from it, "It won't affect you."~~ What I have  
1175 found, in talking to people, <sup>(they say) " "</sup>is yes, you say ~~that~~, but I <sup>there are grandfather clauses</sup>  
1176 don't know if that is what will happen. We show them what is  
1177 written, and we say, "You are clear, you don't have to go,  
1178 no matter what happens, it won't affect you." The  
1179 credibility is just not there.

1180 Mr. FORD. That is understandable.

1181 Now, we have actually been looking at what has happened  
1182 out in the private sector. They have left us behind in this  
1183 pension business a long time ago, not only in the private  
1184 sector, but other kinds of public employers such as states,  
1185 particularly at the colleges and universities and

1186 institutions operated by the states.

1187 But one of the things that the tax law has made extremely  
1188 popular is thrift plans as a supplement to retirement, they  
1189 are being used throughout industries as an inducement to  
1190 keep the kind of people that, Mr. Magee, you were talking  
1191 about. You say to a person, you want to get that extra 10  
1192 years out of them, "Look, we will match some of your money,  
1193 you put it aside on top of your pension, it is tax  
1194 deductible now, and it is free money to you, in effect, and  
1195 you pay some taxes some day on it, but at a reduced rate."  
1196 That becomes the reason not to leave, of course.

1197 Senator Stevens and I, it is no great secret, would like  
1198 to find a variation on that to add to, as a supplement to  
1199 making it possible for Federal managers to use that sort of  
1200 inducement, and for in fact flexibility in those areas where  
1201 we do have retention problems.

1202 We have you gentlemen here, Justice was here, NASA,  
1203 National Institutes of Health, all agencies with highly  
1204 trained people and people who are very much in demand on the  
1205 outside and are leaning to that because their best people  
1206 are being lured away for good and right reasons after they  
1207 have had a lot of government training and experience.

1208 NASA has a revolving door going on down there, and every  
1209 time you talk to somebody, you are talking to a new manager.

1210 But the closest thing we have seen coming at us from the



NAME: HPO115000

PAGE 54

1211 other way was Mr. Devine came in here, that at first looked  
1212 like he was talking about this, then he said, instead of the  
1213 defined benefit plan we would adopt a defined contribution  
1214 plan. The money would be deposited with the Treasury at a  
1215 fixed rate of interest and go into an account. In other  
1216 words, we would place the whole system in kind of a fancy  
1217 savings account with the government deciding where the  
1218 savings would be invested.

1219 When I asked him, would you like us to adopt your plan but  
1220 let the employee decide where the investment was going to go  
1221 within limits, of course, as private employers do, he said  
1222 he would recommend that a bill like that be vetoed because  
1223 he wouldn't want employees to have the economic power of  
1224 that potential investment to use against, I think he said,  
1225 the W.R. Grace Company or something--why the employees ought  
1226 to be mad at W.R. Grace, I don't know. But we didn't get  
1227 very far with that.

1228 There are a lot of members of this committee who are  
1229 genuinely interested in using the device of some sort of a  
1230 thrift plan on top of the defined benefit plan. That  
1231 probably would not be of very much interest to people in  
1232 their first 10 or 15 years in service, but as they get close  
1233 to the time of deciding whether they should go do something  
1234 else or continue in serving out their time, it becomes  
1235 rather significant because it provides an inducement for

NAME: HPO115000

PAGE 55

1236 them to eschew the choice of greener pasture on the outside.

1237       Would you think that kind of an option--I am asking you in  
1238 the dark because we don't know what we can work out and what  
1239 matching would be involved and how generous or ungenerous it  
1240 would be, but we know it would be tax free--would that be a  
1241 useful and valuable kind of adjunct to your system for your  
1242 purposes?

1243       Mr. COHEN. Mr. Chairman, I find that when I go around the  
1244 world talking to people, there is a general interest in  
1245 this. They are really intrigued by this thrift plan, and I  
1246 think you will find the President of the American Foreign  
1247 Services Association, who will testify after me, will  
1248 probably reflect this as well.

1249       One cautionary note, some of our people, especially the  
1250 support people, tend to remain at the lower end of the  
1251 salary scale throughout their careers, and they may have  
1252 certain difficulty in setting aside money for the thrift  
1253 plan. So they would require a definite defined benefits  
1254 plan at all times. We wouldn't want to see that eliminated.

1255       But building on that, a thrift plan with a defined  
1256 contributions element might view--most people would probably  
1257 be interested and favorably interested in the Foreign  
1258 Service.

1259       Mr. FORD. As a matter of fact, I was out of the country  
1260 recently, and I was with people who were talking to

1261 Americans about investing in thrift plans, and a number of  
1262 your people are participating. However, we are not helping  
1263 them in any way. They are doing it with whatever resources  
1264 they have of their own, because it is a concern. That tells  
1265 me, of course, that if it--if they are concerned enough to  
1266 cut into their spendable income and start making plans on  
1267 that basis, that it might be something that we ought to be  
1268 associated with, and it would be a beneficial personnel tool  
1269 for us if we were to encourage and assist in those  
1270 circumstances.

1271       Apparently, from the people I talked to throughout the  
1272 world, as a matter of fact, your people are going at this  
1273 with a remarkable amount of acceptance.

1274       Mr. COHEN. That is right.

1275       Mr. FORD. There are several investment security companies  
1276 that are pretty sound, that they would obviously trust by  
1277 reputation, that are now traveling around the world talking  
1278 to your people, not only your people, but the other  
1279 Americans who are overseas working for the government and  
1280 working for private enterprise, particularly now since we  
1281 have extended the tax exempt status for the American  
1282 civilian working overseas on repatriated dollars. They are  
1283 looking for ways to do something about that.

1284       But private enterprise has jumped into this with a  
1285 vengeance. We found that in the first few years, after

NAME: HPO115000

PAGE 57

1286 401(c) was adopted, that virtually all the Fortune 500  
1287 companies made some variation, a thrift plan available as an  
1288 add-on to the pension system for them.

1289 If you have some thoughts about what kind of a system  
1290 would make sense to your people, don't hesitate to let us  
1291 feed that into the multitude of other brilliant suggestions  
1292 we will have. We are interested in finding a way to do that  
1293 and also finding more flexibility overall in the system, not  
1294 just thinking of thrift plans, but it strikes me that we are  
1295 the only major employer in the United States that treats  
1296 everybody literally, from our most highly trained  
1297 sophisticated, over-educated people to our least-trained,  
1298 least-sophisticated lower paid people, exactly the same when  
1299 we talk about assembling a pension for them, and no one else  
1300 does that, because it doesn't make sense.

1301 We do it that way because, as we have frequently done  
1302 things, we have always done it that way. Ted Stevens and I  
1303 think it might be time that we can break away from that  
1304 pattern of doing it just because we have always done it. If  
1305 you see a way in which we can provide for some flexibility  
1306 for the type of personnel needs that you have without  
1307 disrupting the rest of the system, by all means share them  
1308 with us.

1309 Mr. COHEN. Thank you.

1310 Mr. MAGEE. Thank you.

NAME: HPO115000

PAGE 58

1311 Mr. FORD. Thank you very much for your cooperation here  
1312 today by your appearance.